

John
Pickett

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PETROFINA
CANADA LTD.
1971 ANNUAL REPORT

HIGHLIGHTS OF THE YEAR

FINANCIAL

	1971	1970
Revenues	\$191,346,000	\$182,621,000
Cash generation from all sources	32,339,000	27,745,000
—per common share	3.24	2.78
Net income—including non-recurring capital gain (1970) and loss (1971)	16,604,000	16,555,000
—per common share	1.66	1.66
Dividends paid on common shares	6,976,000	6,973,000
—per common share	.70	.70
Capital expenditures	53,987,000	27,579,000
Long-term debt at end of year	88,785,000	65,384,000
Shareholders' equity at end of year	171,241,000	161,536,000

OPERATING

Production of crude oil and natural gas liquids		
—gross (barrels)	6,413,000	6,217,000
Natural gas produced and sold		
—gross (thousands of cubic feet)	32,202,000	32,306,000
Sales of sulphur (long tons)	106,000	124,000
Crude oil runs to refinery (barrels)	21,354,000	20,671,000

DIRECTORS AND OFFICERS

PRINCIPAL OFFICERS

A. F. CAMPO, Chairman of the Board and Chief Executive Officer

J. R. PATTON, President

DONALD HARVIE, Senior Vice-President

J. E. BAUGH, Vice-President
(Exploration & Production)

J. CARTIER, Vice-President (Marketing)

H. J. HUGHES, Vice-President & Comptroller

A. W. McLEOD, Vice-President, General Counsel and Secretary

J. F. MILLS, Vice-President (Manufacturing)

K. S. C. MULHALL, Vice-President & Treasurer

DIRECTORS

W. A. ARBUCKLE, Chairman of the Canadian Board of The Standard Life Assurance Company

L. BEAUDOIN, President, Bombardier Ltd.

A. F. CAMPO, Chairman of the Board and Chief Executive Officer, Petrofina Canada Ltd.

F. M. COVERT, O.B.E., D.F.C., Q.C., Senior Partner, Stewart, MacKeen & Covert

W. L. FORSTER, C.B.E., Consultant

DONALD HARVIE, Senior Vice-President, Petrofina Canada Ltd.

EMMANUEL LAMY, President, Banque de l'Union Parisienne, C.F.C.B.

ROGER LETOURNEAU, Q.C., Senior Partner, Letourneau, Stein, Marseille, Delisle & LaRue

J. MEEUS, President and Chief Executive Officer, Petrofina, S.A.

TRAJAN NITESCU, Petroleum Consultant

BLANCHE NOYES, Partner, Hornblower & Weeks-Hemphill, Noyes

J. R. PATTON, President, Petrofina Canada Ltd.

SAM STEINBERG, Chairman of the Board, Steinberg's Limited

PETER N. THOMSON, Deputy Chairman, Power Corporation of Canada, Limited

BARON WOLTERS, Chairman of the Board, Petrofina, S.A.

EXECUTIVE OFFICES

The Royal Bank of Canada Building,
1 Place Ville Marie, Montreal 113, Quebec,
Canada

AUDITORS

Clarkson, Gordon & Co.

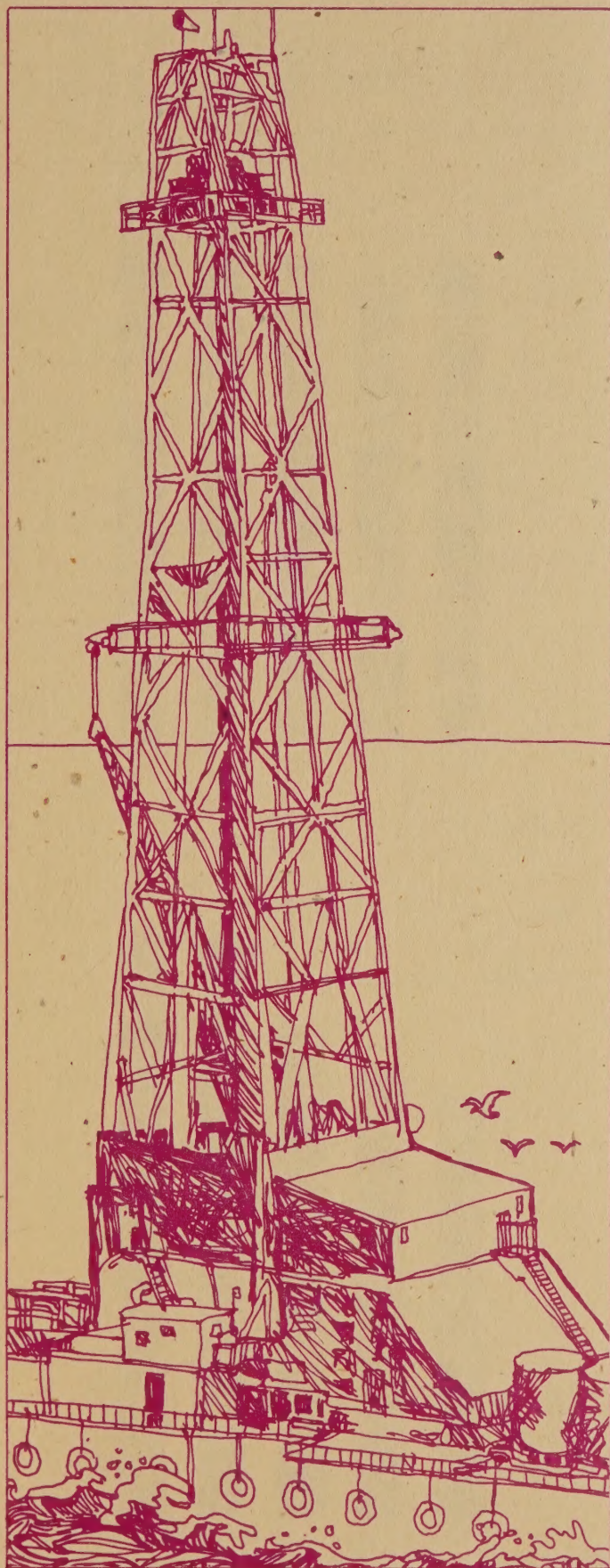
TRANSFER AGENT

Montreal Trust Company

REGISTRAR

The Royal Trust Company

Ce Rapport a été publié en français et en anglais.
Si vous préférez un exemplaire français, veuillez
en faire la demande au: Secrétaire, Petrofina
Canada Ltée, 1 Place Ville Marie, Montréal,
Québec, Canada



TO THE SHAREHOLDERS

Economic conditions in Canada during 1971 improved in relation to 1970, with the major impact occurring during the latter half of the year. Gross National Product increased to 92.4 billion dollars, representing a gain of 9.3% over 1970. Price increases accounted for 3.3% of the growth. G.N.P., in real terms, grew 6% in 1971 as compared with 3.2% in 1970. Of particular importance was the fact that Canada's rate of inflation, compared with other major trading nations, was the lowest recorded for two consecutive years.

The rate of economic improvement was not consistent in all sectors as evidenced by persistently high rates of unemployment, a continued four-year slowdown in business investment, and an overall psychological malaise, created principally by the prospect of major tax changes and other restrictive Government proposals.

Nevertheless, some impressive gains, which bear recognition for inducing a turnaround, were recorded in the housing sector and in consumer spending on durable and semi-durable goods. These were the result of rising wage and salary rates, and increased Government spending.

The Canadian petroleum industry again experienced reasonable growth. Production of crude oil and natural gas liquids reached an average of 1,595,000 barrels per day, an increase of 8% over 1970. Natural gas sales reached 5,270 million cubic feet per day in 1971, a rise of 14% over 1970.

Domestic consumption of petroleum products rose by 5%.

The Company experienced a good year in its principal operations. However, technical difficulties in the manufacturing process used by Fina-Metal Ltd., and lack of markets continued to have an adverse effect upon your Company's earnings. Therefore management decided to suspend these operations temporarily, pending a re-assessment of the situation.

A comparison of total earnings is as follows:

	<u>1971</u>	<u>1970</u>
Earnings from principal operations	\$19,260,000	\$15,047,000
Less: Operating losses from iron powder plant	1,189,000	—
And related write-off of previous development costs	3,446,000	—
Plus: Non-recurring profit	<u>1,979,000</u>	<u>1,508,000</u>
NET PROFIT FOR THE YEAR	<u>\$16,604,000</u>	<u>\$16,555,000</u>

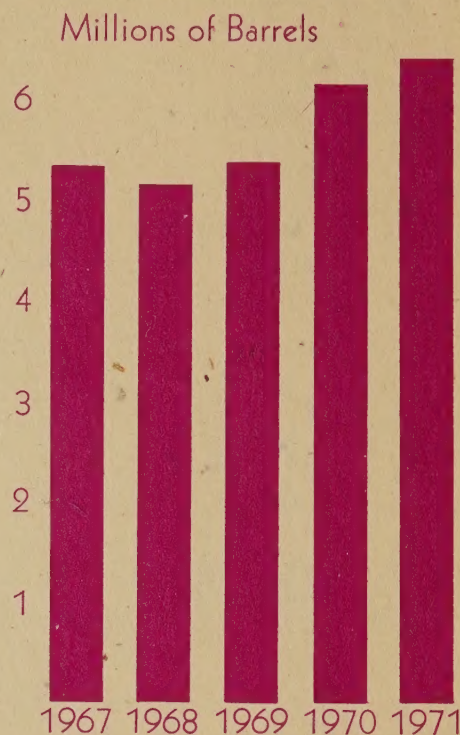
Early in 1969 your Company announced the start of an expansion programme at its Pointe-aux-Trembles refinery, involving the erection of an aromatic extraction unit, the installation of a hydrocracker and increase of the crude distillation capacity to 100,000 barrels per day.

Construction of the aromatic plant and the hydrocracker started in 1970 and plans called for work on the first stage of the refinery enlargement to commence in 1972.

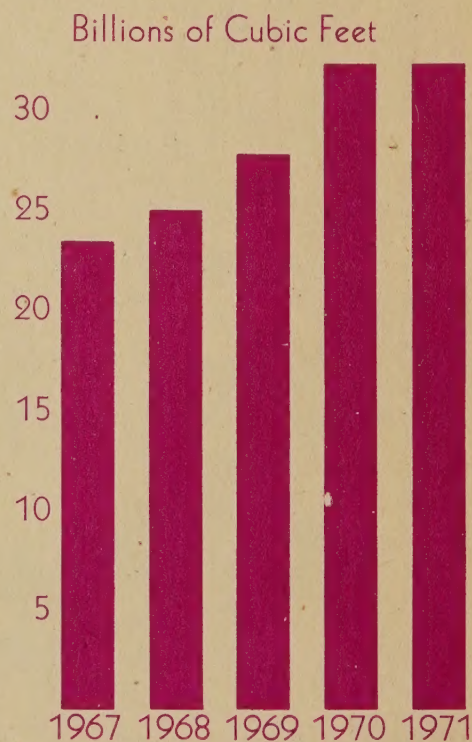
Unfortunately, since 1969, grants, tax concessions and other incentives provided by both the Federal and Provincial governments have fostered a large increase in refining capacity in Eastern Canada with the result that, at the moment, there is surplus refining capacity in the area. This situation has led us reluctantly to the decision to delay our crude distillation expansion until a better balance is established between supply and demand.

In this connection, while we can see the sense of governments providing incentives for industries that will create additional employment by the development of new processes or the manufacture of new products or the construction of needed additional production capacity, we are unable to appreciate the wisdom or the justice of taxpayers' money being used to the detriment of existing industries in order to increase manufacturing capacity that these industries have already provided or have shown clear intentions of providing

CRUDE OIL & NATURAL GAS LIQUIDS PRODUCTION (Before Royalty)



NATURAL GAS SALES (Before Royalty)



at their own cost.

In the case of our Company, the injustice is compounded by the fact that the construction of new refineries has been subsidized at a time when the National Oil Policy limits our markets by discouraging unrestricted shipments of Quebec refined gasolines into Ontario, while leaving our local markets wide open to the dumping of petroleum products from foreign sources.

The postponement of the expansion of the crude distillation facilities will have the effect of slowing down the development of our petrochemical capabilities.

At December 31, 1971, the Company had 2,032 employees. The dedicated efforts of the staff and their contribution toward the continued progress of the Company are deeply appreciated.

EXPLORATION AND PRODUCTION

Canadian Fina Oil Limited, the wholly-owned subsidiary responsible for the exploration and production activities of the Company, was amalgamated with the Company, effective November 30, 1971. The staff of the former Canadian Fina organization will continue to be responsible for exploration and production matters.

At December 31, 1971, the Company held varying interests in 35.7 million acres amounting to 6.7 million net acres. The decrease of over 2 million net acres from the previous year was due, in large part, to a major adjustment in the permit holdings in Hudson Bay where the gross acreage of the project was selectively reduced from approximately 60 million acres to approximately 20 million acres. The decision to relinquish these rights was taken after considering all aspects of the relationship between the life of the permits, work requirements and drilling plans for 1973, 1974 and thereafter.

The major land acquisitions in 1971 were 50,000 acres in the West Buick Creek and East Inga areas of N.E. British Columbia, 41,000

acres at Lovett and 46,000 acres near Chin-chaga in Alberta.

The Company's 1971 production reached record levels with crude oil and natural gas liquids totalling 6.4 million barrels compared to the previous high of 6.2 million barrels in 1970. The average daily liquid production for the year was 17,500 barrels. Natural gas sales amounted to 32 billion cubic feet—no change from the previous year. Sulphur sales, which continue to suffer from market and price conditions, amounted to 106,000 long tons compared to 124,000 in 1970.

The proven reserves of crude oil and natural gas liquids, before royalty, were estimated at 108 million barrels and proven natural gas reserves were estimated at 761 billion cubic feet as of December 31, 1971. Sulphur reserves were 3 million long tons. Using appropriate conversion factors, the total equivalent oil reserves amount to 171.5 million barrels, which represents only a minor decrease from the prior year.

During the past year the Company disposed of several producing properties, in which minor participating interests were held, for cash considerations totalling \$600,000.

The gas plants operated by the Company at Wildcat Hills, Greencourt and Figure Lake averaged daily deliveries of 87 million cubic feet, 19 million cubic feet and 7 million cubic feet respectively. At Kaybob South No. 3, where the Company holds a 7.3% interim equity in the Unit concerned, unforeseeable major delays were incurred due to strikes and equipment problems. This situation prevented completion by the original July 1971 target date; however, start-up operations were commenced in January 1972. The Kaybob South No. 2 plant, in which we hold a 9.28% interest, produced an average of 20.7 million cubic feet of sales gas per day, 11,200 barrels of condensate and 908 long tons of sulphur. The drilling programme for the year under review comprised participation in 44 wells of which 4 were oil wells; 5 were gas wells; 32 were abandoned, and 3 were still drilling at year-end.

In the Maritimes, arrangements have been made for a suitable rig for a planned 1973 offshore drilling programme on the project in which the Company holds a residual working interest of 16⅔%. The plans may include deepening the East Point well drilled in 1970. Approximately 80 miles of onshore seismic and 50 miles of marine seismic were completed in 1971. At year-end, steps were underway to commence drilling the first of two deep prospects at Irishtown and Green Gables on Prince Edward Island. To extend our interests in the eastern Canadian offshore areas, we plan to join two large companies in the formation of a group to acquire exploration rights and, in this connection, have obtained marine seismic data covering a broad area including the Nova Scotia Shelf and the Grand Banks.

A significant farm-in was negotiated in December 1971 on the Central Alberta Coalspur Project. The arrangement involves the drilling of two 15,000' test wells and the Company's interest will increase from 10% to 32½% in approximately 30,000 acres when the earning requirements are met. The Company's share of the costs of the drilling programme is 55%. We may also earn an interest in an additional 15,000 acres by drilling an optional well. The first well, Fina Gulf Erith 15-10-49-19 was spudded in January 1972.

Under the terms of the farm-in at Beaton River, British Columbia, the Company earned a 50% interest in 52,000 acres by drilling five wells—all were abandoned in this stratigraphic type exploration prospect.

In the Figure Lake area of Alberta, the Company's proven gas reserves were increased through the extension of this field by a wild-cat well.

At Blackwater Lake in the Northwest Territories, a commitment well was drilled earning the Company a 30% working interest in 165,000 permit acres. At the present time; in this general area, six competitor wells are being drilled in the vicinity of our Blackwater and Ft. McPherson projects.

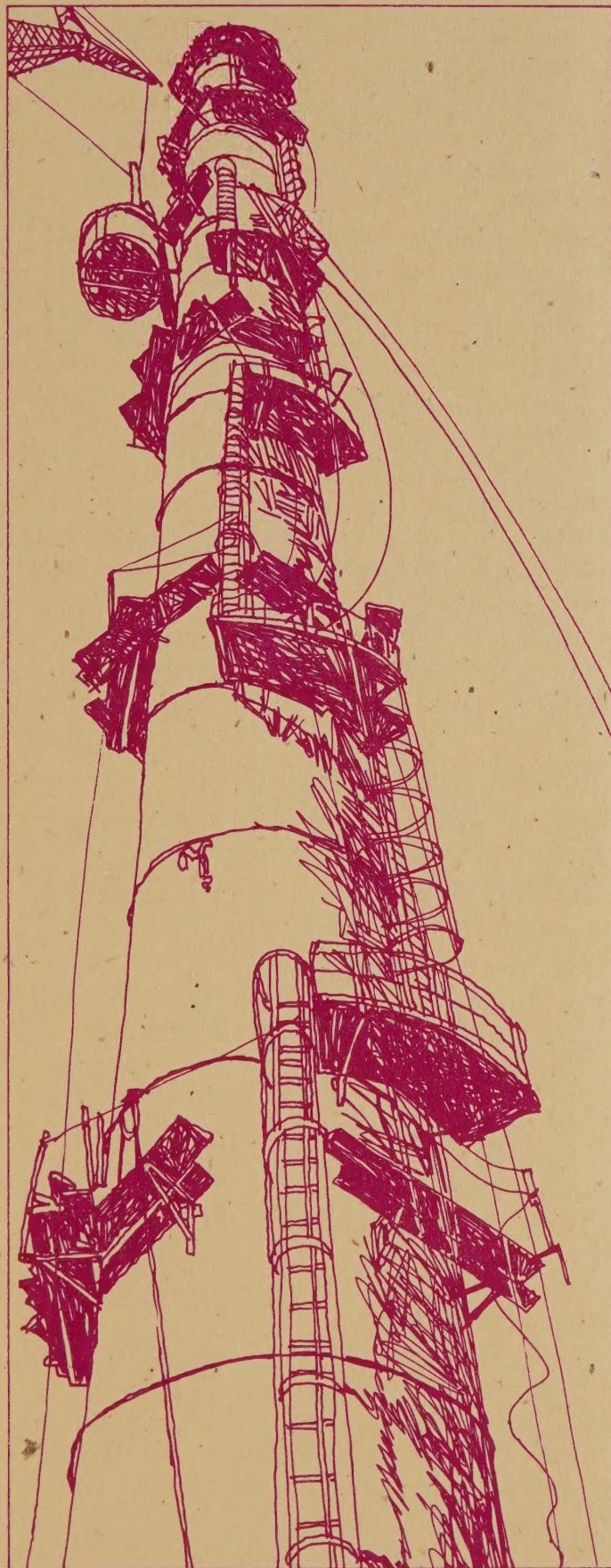
In Alberta, an extensive seismic programme was carried out on the Whitecourt Project to select future drilling locations and, at Benjamin Creek, a seismic programme indicated that drilling is warranted and a well is proposed for this year. In Hudson Bay a marine seismic programme was carried out covering approximately 1,000 miles. A contract for a special cold water semi-submersible drilling vessel was negotiated in order to continue drilling during the summer months of 1973 and possibly 1974.

In the Athabasca Oil Sands area, the Company and its four associates are completing a 60 to 80 well core-hole programme which will serve to define and evaluate our proven near-surface oil sands deposits. Our group's reserve position, we believe, is important, but specialized studies are required before the large capital commitments can be made. We plan on maintaining an active and current appraisal effort in order to be able to judge properly when the economics and technology will warrant a full scale development of our own holdings.

The Peace River pipeline system, in which we hold a 10.3% interest, disposed of its northern extension to the Zama oil fields and this line is being converted to natural gas service, benefiting all segments of the industry.

Expectations for additional gas export allocations were not realized due to the rejection by the National Energy Board of applications for increases. Related to the marketing of natural gas, a temporarily distressed market condition existed at year-end with respect to condensate produced from Alberta gas processing plants.

At the year-end a gas price increase of approximately 25% was awarded under arbitration for our East Calgary field reserves, which are being marketed to the United States northwest area. Certain other gas contract renegotiation clauses are now or soon will become operative and we are hopeful for better, more realistic, but still competitive price realizations in other fields where we have gas interests.



On February 15, 1972; the Company acquired all the shares of Arctic Islands Resources Ltd. —a private Alberta company. Arctic Islands' sole asset is a 2% Carried Interest in the net production income, less preproduction expenses, of Panarctic Oils Ltd. from holdings on the islands and the continental shelf north of the Canadian mainland. The total area involved is in excess of 50,000,000 acres. The Company's decision to enter this far northern exploration play by way of a carried interest gives it broad future exposure to the potential of the islands, while fixing its cost commitment.

SUPPLY AND REFINERY SALES

During the year, 21,480,000 barrels of crude oil were imported for the Company's refinery at Pointe-aux-Trembles.

The price of crude oil purchased was subject to substantial increases during the year as a result of pressure exerted by the OPEC countries. A further adjustment occurred in January 1972, and there appears to be no doubt that still higher prices for refined petroleum products will prevail in the future.

Refinery sales of petrochemical products increased substantially during 1971. The greatest area of expansion was in the field of aromatics, which includes benzene, toluene and xylenes. Further reference to this situation appears in the Manufacturing section of this report.

Sales of other chemical products, including polybutenes and nonenes continued with only minor disruptions occurring due to the U.S. import charge, currency exchange rates, and increased imports.

MANUFACTURING

Despite the inevitable disruptions created by the major refinery expansion at Pointe-aux-Trembles, manufacturing operations proceeded satisfactorily and a new record throughput was achieved in 1971.

Crude oil runs were 21,354,000 barrels for an average of 58,500 barrels per day. In keeping with the requirements to reduce sulphur content in fuel oils, some changes were made

in the types of crude oil utilized. Most of the crude originated in the Persian Gulf and this was supplemented by crudes from Venezuela and Africa.

Alterations in the product mix were made necessary by market demand, with the major changes being the increases in liquified petroleum gas and asphalt.

In an effort to minimize the amount of suspended solids and oil in the waste refinery water, an air flotation plant was completed in May and the results were excellent.

As part of the refinery expansion, a new aromatics complex costing \$16,000,000 was completed and put in service in 1971. Aromatics consist of benzene, toluene and xylenes.

These "building blocks" for the petrochemical industry are used for the manufacture of a wide range of consumer products which vary from household paint to panty-hose. Output of aromatics in the partial year of operation amounted to over 12,000,000 gallons.

MARKETING

In spite of vigorous competition, the sales volume of all products increased at an accelerated rate throughout 1971.

At the retail level, we maintained our policy of providing the motorist with 'Better, Safer, Lower Cost Motoring'; and have avoided spectacular promotions while concentrating on giving better service at the pump island, improving our housekeeping and operating standards, and remaining competitive in all areas. Results seem to confirm the correctness of this marketing philosophy.

Early in 1971, plans were completed for the modernization of older stations and the projected rehabilitation programme referred to in last year's report was commenced. The new designs have received enthusiastic acceptance by both the public and our dealers.

The Sales Agency Programme, designed to

supply farmers and rural fuel oil accounts with home delivery service through commission agents, progressed according to plan. This now represents a substantial portion of our total sales.

Sales of domestic fuel oil delivered by Company trucks or those of subsidiary companies expanded normally, and in 1971, we added to our network through the acquisition of a distributing company north of Montreal.

Present asphalt production facilities are being enlarged to provide for increased sales, and the prospects for continued growth in this field appear good.

An increasing part of our polyisobutylene production goes into the manufacture of two-cycle engine oils presently marketed under the name of "POLY-B". These were introduced to the market a little over a year ago, and have received excellent public acceptance.

FINANCIAL REVIEW

The Company's operations in 1971 resulted in a good increase in operating income.

There are a number of significant matters affecting net profit and these are dealt with below.

A non-recurring charge against earnings was made by writing off prior development costs in the Fina Metal Ltd. operations. The amount involved was \$3,446,000. The machinery and buildings still have a substantial value and these are being depreciated in the normal manner over a period of years.

The non-recurring profit of \$1,979,000 occurred as a result of the sale of the Company's office building in Calgary. This building is now under lease from the purchaser for a period of thirty years.

At December 31, 1971, the Company had stock piled 90,000 long tons of sulphur. The cost of producing this sulphur has been charged against earnings, but no value has been placed on the inventory as the ultimate sales price is uncertain.

The financial results for 1971 and a comparison with the previous year were as follows:

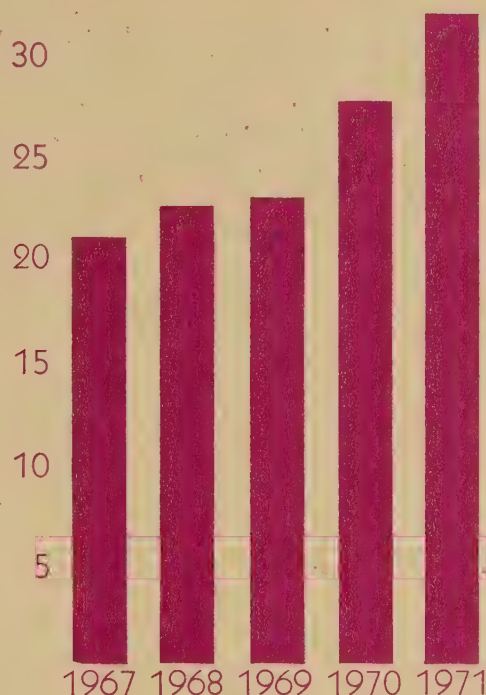
	<u>1971</u>	<u>1970</u>
Net income from operations	\$18,071,000	\$15,047,000
Net income per share	\$1.81	\$1.51
Non-recurring write-off of iron powder development costs	\$ 3,446,000	—
Non-recurring write-off per share	\$0.35	—
Non-recurring profit on sale of assets	\$ 1,979,000	\$ 1,508,000
Non-recurring profit per share	\$0.20	\$0.15
Total net income from all sources	\$16,604,000	\$16,555,000
Total net income per share	\$1.66	\$1.66

The Company also experienced a good growth in total cash generated from all sources during the year. A comparison with the previous year is as follows:

	<u>1971</u>	<u>1970</u>
Cash generated from operations	\$30,360,000	\$26,237,000
Cash generated from operations per share	\$3.04	\$2.63
Cash generated from non-recurring sale of assets	\$ 1,979,000	\$ 1,508,000
Cash generated from non-recurring sale of assets per share	\$0.20	\$0.15
Total cash generated	\$32,339,000	\$27,745,000
Total cash generated per share	\$3.24	\$2.78

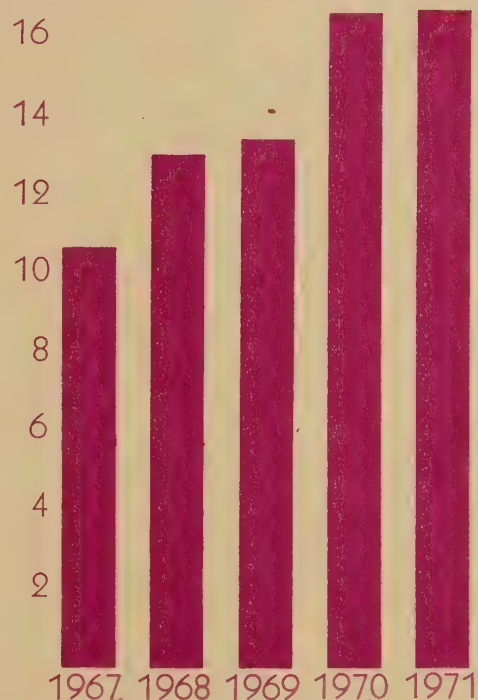
CASH GENERATED

Millions of Dollars



NET PROFIT

Millions of Dollars



The Company's working capital at the year-end was \$16,852,000, compared with \$16,598,000 in 1970.

During 1971, a number of major financial and corporate changes took place and details of these are as follows.

On November 30, 1971, a statutory merger was effected between Canadian Fina Oil Limited, a wholly-owned subsidiary, and Petrofina Canada Ltd., the parent. In addition, twelve small subsidiary companies were merged or dissolved. In this respect, all the outstanding preferred shares of a subsidiary, Super-Service Stations, Limited, were redeemed, and there are now no further minority interests in the Company's operations.

These corporate changes will result in a material cost saving through a simplification of accounting and financial procedures.

From the financial standpoint, several major changes occurred in the structure of the Company's long-term debt.

The financing for the expansion of the Company's refinery at Pointe-aux-Trembles was originally obtained through a German bank. Early in 1971, it became apparent that the Company might face a substantial foreign exchange risk. Consequently, a loan agreement was executed with a Canadian bank in the amount of \$45,000,000 Canadian Funds, and the German bank was repaid. This eliminated the exchange risk and produced a saving in interest costs. Details of this loan appear in the Notes to the Consolidated Financial Statements.

On May 3, 1971, the Company's outstanding 4% debentures were called for redemption. The funds for this were obtained through a long-term bank loan.

In addition, the Company had a number of long-term obligations with balloon payments totalling \$15,209,844 maturing in 1972. These have all been recast and are now payable in annual installments over a period of years.

The following capital amounts were invested in properties, plant and equipment in 1971, compared with the figures for 1970.

	<u>1971</u>	<u>1970</u>
Exploration & Production	\$14,818,000	\$12,065,000
Manufacturing	29,582,000	8,931,000
Marketing	9,349,000	6,338,000
Other	238,000	245,000
	<u>\$53,987,000</u>	<u>\$27,579,000</u>

In 1971, dividends totalling \$6,976,000 or 70¢ per share were paid to shareholders. These dividends, in the case of resident Canadians, are eligible for 10% depletion allowance in addition to the normal 20% dividend tax credit.

SUBMITTED ON BEHALF OF THE BOARD

A. Campo

Chairman of the Board and
Chief Executive Officer

March 3, 1972

PETROFINA CANADA LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1971
(with comparative figures for the year 1970 — note 1)

	1971	1970
Gross income:		
Operating income	\$188,771,996	\$180,932,465
Interest and other income	2,573,667	1,688,957
	<u>191,345,663</u>	<u>182,621,422</u>
Operating charges:		
Costs, operating, selling and general	153,013,847	149,060,531
Taxes other than income taxes	4,345,091	3,974,564
Depreciation (note 1)	7,468,629	6,721,578
Depletion	4,590,505	4,278,885
	<u>169,418,072</u>	<u>164,035,558</u>
	21,927,591	18,585,864
Interest and discount on long-term debt	<u>3,833,421</u>	<u>3,516,684</u>
Income before minority interest and extraordinary items	18,094,170	15,069,180
Income applicable to minority interest	23,375	22,500
Income before extraordinary items	<u>18,070,795</u>	<u>15,046,680</u>
Extraordinary items:		
Profit on sale of an investment	—	1,508,277
Profit on sale of an office building	1,979,431	—
Deferred charges written off (note 3)	<u>(3,446,509)</u>	<u>—</u>
Net income	16,603,717	16,554,957
Retained earnings, beginning of year	46,398,561	36,817,091
	<u>63,002,278</u>	<u>53,372,048</u>
Dividends	6,976,146	6,973,487
Retained earnings, end of year	<u>\$ 56,026,132</u>	<u>\$ 46,398,561</u>
Earnings per share before extraordinary items	\$1.81	\$1.51
Extraordinary items	(.15)	.15
Earnings per share	<u>\$1.66</u>	<u>\$1.66</u>
See accompanying notes		

PETROFINA CANADA LTD. AND SUBSIDIARIES
(Incorporated under the laws of Canada).

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1971

(with comparative figures at December 31, 1970)

ASSETS

	1971	1970
CURRENT:		
Cash	\$ 8,279,526	\$ 6,186,451
Accounts receivable, less allowance for doubtful accounts	29,160,928	30,638,687
Due from affiliated companies	3,195,376	23,008,697
Inventories — (note 1)		
Oil products and other merchandise	24,074,042	21,284,857
Materials and supplies	3,875,513	3,535,766
Prepaid expenses	1,519,692	1,346,409
Total current assets	<u>70,105,077</u>	<u>86,000,867</u>
INVESTMENTS AND ADVANCES — at cost:		
Investments in other companies	2,462,605	2,462,640
Exploration, development and production deposits	349,430	728,065
Mortgages and other advances	7,847,357	7,957,294
	<u>10,659,392</u>	<u>11,147,999</u>
PROPERTIES, PLANT AND EQUIPMENT (notes 1 and 2)	<u>227,248,749</u>	<u>191,583,668</u>
DEFERRED CHARGES:		
Unamortized debt discount and expense	—	23,926
Other (note 3)	1,328,252	4,319,296
	<u>1,328,252</u>	<u>4,343,222</u>
PREMIUMS PAID ON ACQUISITIONS — at cost	<u>8,950,326</u>	<u>8,755,447</u>
	<u>\$318,291,796</u>	<u>\$301,831,203</u>

On behalf of the Board:

A. F. Campo, Director

J. R. Patton, Director

See accompanying notes

LIABILITIES AND SHAREHOLDERS' EQUITY

	1971	1970
CURRENT:		
Accounts payable and accrued charges	\$ 30,522,123	\$ 28,447,834
Due to parent company	3,293,046	2,755,647
Due to affiliated companies	42,447	3,886,395
Notes and bills payable	13,432,256	27,072,607
Current maturities of long-term debt	5,963,082	7,240,353
Total current liabilities	53,252,954	69,402,836
ADVANCES BY PARENT COMPANY (U.S. \$5,000,000) not due within one year	5,012,500	5,053,125
LONG TERM DEBT (note 4)	88,785,176	65,383,585
MINORITY INTEREST	—	455,306
Total liabilities	<u>147,050,630</u>	<u>140,294,852</u>
SHAREHOLDERS' EQUITY:		
Capital — (note 5)		
Common shares of \$10 par value:		
Authorized — 12,000,000 shares		
Issued — 9,968,374 shares		
(1970 — 9,962,174 shares)	99,683,740	99,621,740
Contributed surplus (note 5)	15,531,294	15,516,050
Retained earnings (note 4)	56,026,132	46,398,561
	<u>171,241,166</u>	<u>161,536,351</u>
	<u>\$318,291,796</u>	<u>\$301,831,203</u>

PETROFINA CANADA LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE
AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1971
(with comparative figures for the year 1970)

	1971	1970
Source of funds:		
Operations —		
Net income	\$16,603,717	\$16,554,957
Depreciation, depletion and amortization	12,289,184	11,189,548
Deferred charges written off	3,446,509	—
Total funds from operations	32,339,410	27,744,505
Long-term borrowings	51,521,010	17,424,323
Sale of fixed assets	6,262,679	1,558,328
Issue of shares	77,244	39,552
Net decrease (increase) in mortgages and other advances	109,937	(493,240)
Other items	132,420	76,592
	<u>90,442,700</u>	<u>46,350,060</u>
Application of funds:		
Additions to properties, plant and equipment	53,986,894	27,578,713
Repayments of long-term debt	28,119,419	7,813,208
Dividends paid	6,976,146	6,973,487
Additions to deferred charges	455,964	1,725,473
Purchase of minority interest	455,306	9,580
Premiums paid on acquisitions	194,879	1,164,463
	<u>90,188,608</u>	<u>45,264,924</u>
Net increase in working capital	254,092	1,085,136
Working capital, beginning of year	16,598,031	15,512,895
Working capital, end of year	<u>\$16,852,123</u>	<u>\$16,598,031</u>

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1971

1. ACCOUNTING POLICIES

Consolidation —

Under the terms of an amalgamation agreement dated October 21, 1971 and confirmed by letters patent dated November 30, 1971, Petrofina Canada Ltd. and its wholly-owned subsidiary, Canadian Fina Oil Limited, were merged into one company, retaining the name Petrofina Canada Ltd. The consolidated financial statements include the accounts of Petrofina Canada Ltd. and subsidiaries, all of which are now wholly-owned.

Production properties —

The full-cost method of accounting is followed wherein all costs related to the exploration for and the development of oil and gas reserves are capitalized. The total costs thus capitalized are depleted on the composite unit of production method based on the estimated reserves of oil, gas and other saleable products. Depreciation on production equipment, gas plants and related facilities is provided on the same basis.

Refining, marketing and other properties and

equipment —

Depreciation is based on the estimated service lives of the assets, calculated on the straight-line method except for vehicles, where the diminishing balance method is used.

Inventories —

Oil products and other merchandise are shown at the lower of cost and net realizable value. Cost of oil products has been determined on the basis of the last-in, first-out method. Materials and supplies are shown at the lower of cost and replacement value.

Foreign currencies —

Amounts in currencies other than Canadian dollars, have been translated as follows:

Current assets and current liabilities and advances by the parent company — at rates of exchange prevailing at year-end;

Long-term debt — at the rate of exchange prevailing at the date the debt was incurred;

Income and expenses — at rates of exchange prevailing through the year.

In 1971, certain amounts previously included in operating income have been included in operating charges. The 1970 figures have been restated to reflect this change, which has no effect on net income.

2. PROPERTIES, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation and depletion	Net book value
Production	\$176,838,662	\$ 65,679,868*	\$111,158,794
Refining	105,791,224	42,320,299	63,470,925
Marketing	74,932,273	26,252,447	48,679,826
Other	4,849,708	910,504	3,939,204
	<u>\$362,411,867</u>	<u>\$135,163,118</u>	<u>\$227,248,749</u>

*includes depletion
of \$52,202,542.

Costs incurred to December 31, 1971 in connection with the construction of new facilities at the Pointe-aux-Trembles refinery amounted to \$35,353,634. It is estimated that further amounts

aggregating \$14,000,000 may be expended in 1972 in connection with this construction programme.

3. DEFERRED CHARGES

Technical difficulties in the manufacturing processes at the metal powder plant of Fina Metal Ltd. resulted in the suspension towards the end of the year of its manufacturing opera-

tions. Development, start-up and other costs which had been deferred in previous periods amounting to \$3,446,509 have been written off as an extraordinary item; losses incurred in 1971, amounting to \$1,189,000 are included in operating charges.

4. LONG-TERM DEBT

Petrofina Canada Ltd. —

Secured:

Production loans with interest rates varying between the prime rate and 1% above the prime rate due by 1977

\$12,901,462

Other loans

620,182

\$13,521,644

Unsecured:

Loan with interest varying between $\frac{3}{4}\%$ and $1\frac{1}{4}\%$ above the prime rate, dependent upon prime rate being less than 8% or greater than $8\frac{1}{2}\%$, due in varying annual instalments through 1981

34,900,000

Loans with interest between $\frac{1}{2}\%$ and 1% above the prime rate, due in varying annual instalments through 1979

28,379,844

$6\frac{1}{8}\%$ guaranteed promissory notes due U.S. \$850,000 annually to 1980 and the balance in 1981 (U.S. \$8,600,000)

9,285,145

9% loan due \$400,000 annually to 1974

1,200,000

Non-interest bearing advances made to finance the development of certain gas reserves, repayable out of production

2,609,125

Other loans

452,500

76,826,614

90,348,258

Subsidiaries —

Unsecured:

Loan with interest at $\frac{3}{4}\%$ above the prime rate, due \$200,000 annually to 1978 and the balance in 1979

2,400,000

Loan with interest at the prime rate, due by 1975

500,000

$6\frac{1}{4}\%$ loan repayable \$500,000 annually to 1974

1,500,000

4,400,000

94,748,258

5,963,082

\$88,785,176

Less instalments included in current liabilities

During the year, certain long-term loans outstanding at December 31, 1970 were renegotiated.

Annual payments required to retire long-term debt amount to approximately \$11,920,000 in 1973, \$14,147,000 in 1974, \$12,616,000 in 1975 and \$10,750,000 in 1976.

Included in the covenants contained in agreements relating to certain of the long-term debts are restrictions limiting consolidated long-term debt and the payment of dividends by the Company. At December 31, 1971, approximately \$13,539,000 of the consolidated retained earnings was subject to such restrictions.

5. CAPITAL

During the year, 6,200 common shares were issued under the stock option plan. The premium of \$15,244 received on the issuance of these shares has been credited to contributed surplus. The Company has reserved 48,000 common shares for issuance under the stock option plan, and as at December 31, 1971, options had been granted on 6,800 shares, particulars being as follows:

Number of shares	Option price per share	Date exercisable
2,200	\$11.02	To August 5, 1975
600	12.625	To January 31, 1974
3,000	13.61	To February 4, 1975
1,000	14.00	To February 29, 1972

6. INCOME TAXES

For income tax purposes, intangible development costs, namely lease acquisition, exploration and drilling costs, have been claimed in excess of the related depletion and amortization reflected in the accounts, thus eliminating or reducing income taxes otherwise payable. On the other hand, capital cost allowances have been claimed in amounts which are less than the related depreciation reflected in the consolidated accounts.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originate in financial years commencing on or after January 1, 1968. The Company does not believe that tax allocation in respect of intangible development costs is appropriate and many other companies in the oil and gas industry in Canada are in agreement with this opinion. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs.

At the same time, no credit has been taken for future tax reductions which will result from timing differences involving depreciation and

capital cost allowances.

If the tax allocation basis, as recommended by the Canadian Institute of Chartered Accountants, had been followed in current and prior years, a charge against income for the year for income taxes of approximately \$2,300,000 (1970 — \$1,500,000) would have been required and the cumulative amount of deferred tax credits to December 31, 1971 would have been approximately \$11,000,000 (1970 — \$8,700,000).

7. COMMITMENTS AND CONTINGENCIES

Annual rentals payable on long-term leases (three years and over) for real property, including the Calgary office building which was sold and then leased back in 1971, amount to approximately \$3,316,000 (1970 — \$3,000,000).

At December 31, 1971 the companies had guaranteed loans amounting to approximately \$1,437,000.

8. REMUNERATION OF DIRECTORS AND OFFICERS

During the year, the fifteen directors of the Company received \$23,200 as directors and the nine officers of the Company (three of whom were directors) received \$454,000 as officers.

In 1970, the fifteen directors and four past directors of the Company received \$15,567 as directors and the eight officers of the Company (three of whom were directors) received \$409,000 as officers.

9. SUBSEQUENT EVENT

On February 15, 1972 the Company acquired all the shares of Arctic Islands Resources Ltd. whose sole asset is a 2% carried interest in the net production income, less preproduction expenses, of Panarctic Oils Ltd. The greater part of the purchase price was financed through long-term borrowing.

PETROFINA CANADA LTD. AND SUBSIDIARIES

TEN YEAR REVIEW OF OPERATIONS

	1971	1970	1969
STATISTICAL			
Crude oil and natural gas liquids production (before royalty) for the year (thousands of barrels)	6,413	6,217	5,324
Natural gas sales (before royalty) for the year (millions of cubic feet)	32,202	32,306	27,945
Number of wells drilled in which Company had participation	44	54	85
Number of wells completed in which Company had participation	9	15	44
Sulphur sales (long tons)	106,000	124,400	105,700
Gross acreage (thousands of acres)	35,700	76,300	76,700
Net acreage (thousands of acres)	6,700	8,900	10,400
Crude oil run to refinery stills for the year (thousands of barrels)	21,354	20,671	19,125
Total outlets used in distribution of refined products	1,567	1,609	1,625
Number of employees	2,032	2,057	1,616
FINANCIAL (in thousands of dollars)			
Gross income for the year	191,346	182,621	179,079
Net income	16,604	16,555	13,402
Depreciation, depletion and amortization (including amortization of excess cost)	15,735*	11,190	9,842
Total cash generated	32,339	27,745	23,243
Working capital	16,852	16,598	15,513
Total assets	318,292	301,831	272,479
Long-term debt	88,785	65,384	55,772
Book value of shareholders' equity	171,241	161,536	151,915

*Includes write-off of deferred charges of Fina Metal Ltd. in the amount of \$3,446,000.

1968	1967	1966	1965	1964	1963	1962
5,151	5,305	5,104	4,614	4,578	4,393	4,306
24,969	23,494	22,057	21,631	22,179	20,320	19,186
89	76	119	84	66	86	143
42	41	74	43	42	52	112
52,400	81,100	74,900	71,500	57,000	49,500	25,100
88,000	15,700	6,200	5,800	5,600	5,400	5,800
11,300	5,500	2,900	—	—	—	—
17,666	15,852	13,290	12,168	11,702	11,559	10,552
1,739	1,731	1,755	1,783	1,783	1,768	1,751
1,607	1,491	1,388	1,352	1,262	1,116	1,146
162,712	155,709	143,828	143,345	139,155	131,388	84,551
13,014	10,706	9,292	8,549	7,076	6,973	6,706
9,760	10,376	9,442	8,870	8,950	8,191	8,490
22,774	21,082	18,920	17,550	16,157	16,399	16,519
15,586	15,052	15,721	12,396	10,370	10,153	12,993
246,864	243,798	229,231	220,349	203,808	201,761	185,818
46,739	49,500	39,838	34,378	31,935	27,910	27,808
146,750	139,457	134,352	130,999	127,737	126,266	125,038

AUDITORS' REPORT

To the Shareholders of
Petrofina Canada Ltd.:

We have examined the consolidated balance sheet of Petrofina Canada Ltd. and its subsidiaries as at December 31, 1971 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants
Montréal, Canada,
February 16, 1972.



**PETROFINA CANADA LTD.
LTÉE**

TELEPHONE: (514) 866-8861 — TELEX: 05267593

1 PLACE VILLE MARIE — C.P. 3006 STATION B

MONTREAL 113, P.Q.

FOR RELEASE

Tuesday, November 9, 1971.

Petrofina Canada Ltd. announced today that net earnings for the first nine months of 1971 amounted to \$11,897,000, (\$1.19 per share), compared with \$10,664,000, (\$1.07 per share), in the previous year.

The improvement in earnings was due to higher product prices, increased sales volume, and greater production of crude oil and natural gas liquids.

Technical difficulties in the manufacturing process used by Fina Metal Ltd. continued to have an adverse effect upon the Company's earnings. A decision has been reached by Management to suspend operations temporarily, pending a re-assessment of the problems.



SEMI-ANNUAL REPORT TO THE SHAREHOLDERS

Net profit for the first six months of 1971 amounted to \$7,838,000 (79¢ per share), compared with \$7,106,000 (71¢ per share) in 1970. The figures for 1970 have been restated to include the operations of Finacentres Limited and Fina Metal Ltd., which Companies became wholly-owned subsidiaries last year.

While earnings improved as a result of higher product prices, increased sales volume and greater production of liquids and natural gas in Western Canada, earnings were adversely affected by losses incurred in Fina Metal Ltd., where operational difficulties are still being experienced.

In June, the Company negotiated a \$45,000,000 (Canadian Funds) loan to provide the funds necessary for the Refinery expansion and to replace the loan previously arranged with a German Bank for this purpose. The interest rate applicable to the new loan is more attractive and, in addition, the substantial foreign exchange risk has been eliminated.

Construction work at the Refinery is proceeding according to plan and final completion is expected in 1972 as scheduled.

On August 6, 1971, a dividend in the amount of 35¢ per share was declared. This is payable on September 30, 1971 to shareholders of record on August 31, 1971.

A. F. Campo,
Chairman of the Board

PETROFINA CANADA LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

For the half year ended June 30, 1971

(with comparative figures for the half year ended June 30, 1970)

(Unaudited)

	<u>1971</u>	<u>1970</u>
Gross income:		
Operating income	\$100,313,906	\$97,742,358
Interest and other income	879,196	1,864,269
	<u>\$101,193,102</u>	<u>\$99,606,627</u>
Operating charges:		
Costs, operating, selling and general	\$ 83,750,513	\$83,496,897
Taxes other than income taxes ...	2,055,389	2,011,648
Depreciation	3,619,750	3,215,534
Depletion	2,187,652	2,056,396
	<u>\$ 91,613,304</u>	<u>\$90,780,475</u>
	\$ 9,579,798	\$ 8,826,152
Interest and discount on long-term debt	1,730,301	1,709,045
Income before minority interest	\$ 7,849,497	\$ 7,117,107
Income applicable to minority interest	11,250	11,250
Net income	<u>\$ 7,838,247</u>	<u>\$ 7,105,857</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the half year ended June 30, 1971

(with comparative figures for the half year ended June 30, 1970)

(Unaudited)

Retained earnings beginning of year		
As previously reported	\$46,398,561	\$38,109,410
Charges arising from inclusion of companies not previously consolidated	—	(1,292,319)
As restated	\$46,398,561	\$36,817,091
Net income for the current year to date	7,838,247	7,105,857
	<u>\$54,236,808</u>	<u>\$43,922,948</u>
Dividends	3,487,286	3,486,726
Retained earnings, end of period	<u>\$50,749,522</u>	<u>\$40,436,222</u>

NOTE: At the end of the year 1970, the Company acquired 100% control of Fina Metal Ltd. and Finacentres Limited. The accounts of these two Companies have been incorporated on a retroactive basis and comparative figures for 1970 have been restated accordingly.

PETROFINA CANADA LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS**

For the half year ended June 30, 1971

(with comparative figures for the half year ended June 30, 1970)

(Unaudited)

1971 1970

SOURCE OF FUNDS:

Operations—

Net income	\$ 7,838,247	\$ 7,105,857
Depreciation, depletion and amortization	<u>6,108,551</u>	<u>5,363,523</u>
Total funds from operations	\$13,946,798	\$12,469,380
Long-term borrowings	25,152,438	7,541,427
Sale of fixed assets	1,207,047	710,730
Issue of shares	58,510	39,552
Net decrease in mortgages and other advances	<u>242,275</u>	<u>(465,726)</u>
	<u>\$40,607,068</u>	<u>\$20,295,363</u>

APPLICATION OF FUNDS:

Additions to properties, plant and equipment	\$20,323,696	\$ 7,710,705
Repayments of long-term debt ...	24,560,004	3,673,888
Dividends paid	3,487,286	3,486,726
Investments in and advances to affiliated companies	<u>—</u>	<u>2,441,997</u>
	<u>\$48,370,986</u>	<u>\$17,313,316</u>
Net increase (decrease) in working capital	\$ (7,763,918)	\$ 2,982,047
Working capital, beginning of year ..	<u>16,598,031</u>	<u>15,512,895</u>
Working capital, end of period	<u>\$ 8,834,113</u>	<u>\$18,494,942</u>

PETROFINA CANADA LTÉE ET SES FILIALES

ÉTAT CONSOLIDÉ DE PROFITS ET PERTES

Pour le semestre terminé le 30 juin 1971
(comparé aux chiffres du semestre terminé le 30 juin 1970)
(non certifié par les vérificateurs externes)

	<u>1971</u>	<u>1970</u>
Revenus bruts:		
Revenus d'exploitation	\$100,313,906	\$97,742,358
Intérêts et autres revenus	879,196	1,864,269
	<u>\$101,193,102</u>	<u>\$99,606,627</u>
Frais d'exploitation:		
Prix de revient, frais d'exploitation, frais de vente et frais généraux	\$ 83,750,513	\$83,496,897
Taxes autres que les impôts sur le revenu	2,055,389	2,011,648
Amortissement	3,619,750	3,215,534
Epuisement	2,187,652	2,056,396
	<u>\$ 91,613,304</u>	<u>\$90,780,475</u>
	<u>\$ 9,579,798</u>	<u>\$ 8,826,152</u>
Intérêts et escomptes sur les dettes à long terme	1,730,301	1,709,045
Bénéfice avant participations minoritaires	\$ 7,849,497	\$ 7,117,107
Bénéfice applicable aux participations minoritaires	11,250	11,250
Bénéfice net	<u>\$ 7,838,247</u>	<u>\$ 7,105,857</u>

ÉTAT CONSOLIDÉ DES BÉNÉFICES ACCUMULÉS

Pour le semestre terminé le 30 juin 1971
(comparé aux chiffres du semestre terminé le 30 juin 1970)
(non certifié par les vérificateurs externes)

Bénéfices accumulés au début de l'exercice		
Tels que rapportés préalablement .	\$46,398,561	\$38,109,410
Ajustement dû à l'inclusion de sociétés non antérieurement consolidées	—	(1,292,319)
Tels qu'ajustés	\$46,398,561	\$36,817,091
Bénéfice net du semestre	7,838,247	7,105,857
	<u>\$54,236,808</u>	<u>\$43,922,948</u>
Dividendes	3,487,286	3,486,726
Bénéfices accumulés à la fin du semestre	<u>\$50,749,522</u>	<u>\$40,436,222</u>

N.B.: La Société a acquis, à la fin de 1970, le contrôle à 100% de Fina Metal Ltée et Finacentres Limited. Les comptes de ces deux sociétés ont été incorporés rétroactivement et les chiffres pour 1970 ont été modifiés en conséquence.

PETROFINA CANADA LTÉE ET SES FILIALES

ÉTAT CONSOLIDÉ DE LA PROVENANCE ET DE L'UTILISATION DES FONDS

Pour le semestre terminé le 30 juin 1971

(comparé aux chiffres du semestre terminé le 30 juin 1970)

(non certifié par les vérificateurs externes)

	<u>1971</u>	<u>1970</u>
PROVENANCE DES FONDS:		
Exploitation—		
Bénéfice net	\$ 7,838,247	\$ 7,105,857
Amortissement et épuisement	<u>6,108,551</u>	<u>5,363,523</u>
Total des fonds provenant de l'exploitation	\$13,946,798	\$12,469,380
Emprunts à long terme	25,152,438	7,541,427
Vente d'immobilisations	1,207,047	710,730
Emission d'actions	58,510	39,552
Diminution nette des hypothèques et autres redevances	<u>242,275</u>	<u>(465,726)</u>
	<u>\$40,607,068</u>	<u>\$20,295,363</u>
UTILISATION DES FONDS:		
Additions aux propriétés, installations et équipement	\$20,323,696	\$ 7,710,705
Remboursement de dettes à long terme	24,560,004	3,673,888
Dividendes versés	3,487,286	3,486,726
Investissements et avances aux sociétés affiliées	<u>—</u>	<u>2,441,997</u>
	<u>\$48,370,986</u>	<u>\$17,313,316</u>
Augmentation (diminution) nette du fonds de roulement	\$ (7,763,918)	\$ 2,982,047
Fonds de roulement au début de l'exercice	<u>16,598,031</u>	<u>15,512,895</u>
Fonds de roulement à la fin du semestre	<u>\$ 8,834,113</u>	<u>\$18,494,942</u>



RAPPORT SEMESTRIEL AUX ACTIONNAIRES

Les bénéfices nets pour le premier semestre de 1971 se sont élevés à \$7,838,000 (79¢ par action) contre \$7,106,000 (71¢ par action) en 1970. Les chiffres pour l'année 1970 ont été redressés pour inclure les opérations de Finacentres Limited et Fina Metal Ltée qui sont devenues, l'an dernier, des filiales à part entière.

Quoique les revenus aient augmenté principalement à cause des prix de vente plus élevés et l'accroissement du volume des ventes, de la production de condensats et de gaz dans l'ouest canadien, ils ont été contraints par les pertes subies par Fina Metal Ltée qui continue à faire face à des difficultés techniques.

Au mois de juin la Société a conclu un prêt de \$45,000,000, en fonds canadiens, pour pourvoir à l'agrandissement de la raffinerie et rembourser le prêt par une Banque Allemande, qui avait été prévu à cette fin. Le taux d'intérêt de ce nouveau prêt est plus attrayant et, en plus, le risque du change étranger a été éliminé.

Les travaux de construction de la raffinerie se poursuivent à bon train et le tout devrait être complété, tel que prévu, en 1972.

Le 6 août 1971 un dividende de 35¢ par action a été déclaré payable le 30 septembre 1971 aux actionnaires inscrits le 31 août 1971.

A. F. Campo,
Président du Conseil
d'Administration